

# Centuria Capital No. 2 Fund

13 April 2022

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## Issuer Outline

Centuria Funds Management Limited is the trustee for the Centuria Capital No.2 Fund (C2F). C2F is a wholly-owned subsidiary of Centuria Capital Group (ASX:CNI, Centuria) and holds strategic equity investments in a number of listed and unlisted property investments managed by CNI group entities, including Centuria Industrial REIT (ASX:CIP) and Centuria Office REIT (ASX:COF). CNI is an ASX-listed specialist investment manager with more than AUD20 billion in total assets under management and strong offerings across listed real estate investment trusts, unlisted real estate funds and investment bonds.

Centuria Group's primary lines of business include property funds management – which include listed funds (~AUD6.7bn AUM) and unlisted funds (~AUD12.6bn AUM) – and investment bonds, offering a range of investment products including tax effective bonds and prepaid funeral plans.

Sector: Real Estate  
Sub-sector: REIT  
Country: Australia  
Ownership: Public

## Key Financials (AUDm)

LTM (31 Dec)	2021
Revenue	141.3
EBITDA	74.7
Interest Expense	(9.4)
Total Assets	2,617.9
Cash	293.1
Debt	453.6
Debt / Assets	17.3%
EBITDA/Interest	2.8x

Source: S&P Capital IQ, Company, FIIG estimates

## Summary Bond Details

ISIN	Issue Amount	Ranking	Coupon	Coupon Frequency	First Call <sup>1</sup>	Maturity Date
AU3FN0045068	AUD35m	Snr Secured	BBSW + 4.25%	Quarterly	21 April 2022	21 Apr 2023
AU3FN0053773	AUD31.65m	Snr Secured	BBSW + 4.50%	Quarterly	21 Apr 2022	21 Apr 2024
AU3CB0271898	AUD30.55m	Snr Secured	5.00%	Semi-Annual	21 April 2022	21 Apr 2024
AU3CB0287373	AUD70m	Snr Secured	5.4632%	Semi-Annual	25 September 2024	25 Mar 2025
AU3FN0068003	AUD30m	Snr Secured	6mBBSW + 3.35%	Semi-Annual	25 September 2024	25 Mar 2025

<sup>1</sup>Excludes potential terms that would allow the issuer to redeem prior to the maturity date through a make-whole call

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## Centuria Capital No. 2 Fund

### Strengths

- **Asset backing:** The primary assets of the issuer comprise holdings in ASX listed entities and unlisted property syndicates. As at 31 December 2021, the value of the ASX listed investments (being investments in CIP and COF) totalled AUD531m. Unlisted investments, equity investments, and other investments bring C2F's total asset values to AUD1,266m. CIP and COF are Australia's largest Industrial and Office REIT's with total funds under management (FUM) of AUD4.0bn and AUD2.4bn respectively. C2F have a 17.1% ownership in CIP and 19.9% ownership in COF. In addition, C2F owns one property in Perth, valued at AUD159m.
- **Predictable cash flows:** C2F's main investments are in real estate investment trusts (REITs). One of the key characteristics of REIT's is that they have to distribute at least 90% of their income to shareholders, thereby removing the discretionary nature of dividends for traditional corporates and ensuring uninterrupted cash flows to service its debt. In FY21, C2F received AUD25.6m of dividends, or more than twice the amount of interest due under its debt facilities (including the notes).
- **Diversified portfolio:** C2F's investments are characterised by the diversity of their portfolio, both in terms of location and tenants. Within the listed REITs, COF has a portfolio of 23 assets across Australia's better-performing office markets in metropolitan, regional and near-city markets. The CIP portfolio holds 80 high-quality industrial assets. COVID-19 tailwinds for the industrial sector saw the portfolio benefit from a half a billion valuation uplift during FY21.
- **Limited COVID impact:** C2F, and the broader Centuria Capital group, has performed strongly during the pandemic, with close to 99% of rents collected across the entire real estate platform between July 2020 and June 2021. This in part reflects the large exposure to industrial, office and healthcare properties with only a very small exposure to retail. We note that 82% of the portfolio income from the office portfolio is generated from government, ASX-listed and multinational tenants.
- **Notes benefit from a guarantee and negative pledge:** The notes will be unconditionally and irrevocably guaranteed by Centuria Capital Ltd (unsecured guarantor). Centuria Capital Ltd is an Australian ASX listed specialist investment manager, founded in 1998. As at 15 March 2022, it had a market capitalisation of AUD2.33bn and total assets at the end of 1H22 of AUD2.6bn. CIP and COF completed successful capital raisings at the start of FY22 acquiring ~AUD700m of high quality assets. The recent acquisition of Primewest has enabled Centuria Capital to materially expand and is now the 4<sup>th</sup> largest ASX listed real estate funds manager, only marginally behind Dexu (with Goodman and Charter Hall about three times the size of Centuria Capital). On the back of the Primewest merger (as well as property acquisition), Centuria Capital's unlisted property AUM grew ~175% in FY21 and listed property AUM grew ~37%. Centuria has a diverse range of quality tenants, including Woolworths, Telstra, Government entities, and the Seven Network. Centuria's real estate portfolio boasts a weighted average lease expiry (WALE) of 5.9 years and 95.7% occupancy.

### Risks

- **Inherently linked to property market fluctuations:** C2F and the broader Centuria Group are subject to the prevailing property market conditions. The ongoing value of properties held by funds managed may fluctuate due to a number of factors including rental levels, occupancy assumptions, vacancy periods, rental incomes and capitalisation rates, all of which may change for a variety of reasons. The property assets managed by Centuria Group are, by their nature, illiquid investments. Whilst there is a high degree of uncertainty in global markets caused by the COVID-19 pandemic, Centuria delivered a strong performance in FY21, its resilience attributed to their decentralised office assets and the industrial portfolio benefited from a shift to online purchasing and supply chain infrastructure was identified as the sector most likely to benefit. Centuria achieved a 98.8% average rent collection through this Covid-affected period, and 97.7% over the first half of FY22.

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- **Structural subordination:** Consistent with many funds management businesses in the real estate sector, Centuria Group raises debt to fund its operations (and primarily its equity interests in the underlying assets) but its investee companies will also raise debt. For example, CIP had about AUD1,192.9m of debt as at 31 December 2021. This means that, in the event of material underperformance, the lenders at the asset level will have priority rights over those assets, with C2F and Centuria Capital only having a residual interest once the primary lenders have been repaid. This is somewhat mitigated by the relatively conservative gearing of the investee companies, such as CIP reporting a gearing of 30.5% as at 31 December 2021 and COF's pro-forma gearing standing at 33.1% post its recent equity raising in September 2021 to fund the acquisition of interests in two office properties.
- **Highly regulated industry:** Centuria Group operates in a highly regulated environment. Regulatory breaches may affect Centuria's operational and financial performance. This is particularly the case since the group is reliant on its financial services licences and ASIC can impose conditions or restrictions on the group in the event of repeated or material non-compliance.
- **Fees on FUM is a large source of revenue:** The group manages a number of funds on behalf of third party investors. The majority of income is derived from fees calculated with reference to the value of funds under the control. Centuria Group's financial performance may be adversely affected if it was not able to appropriately respond to several risks.
- **Reliance on additional equity investment:** As a fund manager, growth in Centuria Group's earnings may be impacted by the ability to establish new funds. Specifically such income growth is dependent on the ability to continue to source and maintain equity from new and existing investors for current and future funds.
- **Financial performance of funds:** Centuria Group's long term strategy is to continue holding co-investment positions in a number of the funds it manages. Factors influencing the financial performance of these managed funds may adversely impact the value of Centuria Group's assets or quantum of its earnings, which may in turn impact the market price of Centuria's bonds.
- **Refinancing risk:** The group and funds managed rely on access to various sources of capital, along with the refinancing and/or variation of existing debt facilities. An inability to obtain the necessary funding on acceptable terms or a material increase in the costs of funding may have an adverse impact.

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## Centuria Capital No. 2 Fund

### Summary Financials

The financial summary below represents the consolidated operations of Centuria Capital Group (AUDm, FYE 30 June).

Income Statement	FY18	FY19	FY20	FY21	1HY22
Revenue	134.5	116.0	162.4	228.9	141.3
EBITDA	91.0	66.7	48.3	74.4	73.3
Net Interest Expense	(19.5)	(9.3)	(21.4)	(31.6)	(9.4)
Net income	24.5	19.6	21.0	23.4	25.52
Balance Sheet	FY18	FY19	FY20	FY21	1HY22
Cash	101.9	124.7	174.5	273.4	293.1
Total assets	1,138.3	1,278.3	1,601.4	2,571.3	2,617.9
Total debt	269.1	331.9	321.0	479.6	453.6
Total equity	441.2	551.4	831.1	1,570.2	1,626.8
Cash Flow Statement	FY18	FY19	FY20	FY21	1HY22
Cash flow from operating activities	36.9	12.9	33.1	22.9	78.4
Cash flow from investing activities	(92.3)	(111.2)	(98.8)	(139.3)	(10.9)
Debt Issued / (Repaid)	23.6	58.3	(43.3)	144.0	(3.5)
Equity Issued	21.5	29.4	205.7	133.1	0.0
Credit Metrics	FY18	FY19	FY20	FY21	1HY22
Net Debt/EBITDA	1.84x	3.11x	3.03x	2.77x	2.19x
EBITDA/Net Interest Expense	4.7x	7.2x	2.4x	2.4x	2.8x
Debt / (Debt + Equity)	37.9%	37.6%	27.9%	23.4%	21.8%

Source: S&P Capital IQ, Company, FIIG estimates.

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